



Janet Napolitano, Governor

Gale Garriott, Director

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### ARIZONA DEPARTMENT OF REVENUE

#### MISSION STATEMENT

To administer tax laws fairly  
and efficiently for the  
people of Arizona

## YUMA TAX PREPARER INDICTED FOR FRAUDULENT TAX RETURNS

Arizona Department of Revenue Director Gale Garriott and Arizona Attorney General Terry Goddard today announced charges filed against Yuma resident David Arthur Torres for preparing fraudulent state income tax returns. Torres, 60, operates a Yuma area tax preparation business known as Torres Tax Service.

He was indicted by the State Grand Jury on 23 felony counts related to the preparation of false and fraudulent Arizona individual income tax returns involving the years 2001 through 2004. Torres greatly inflated the deductions taken on his clients' returns during these years.

"People put their trust in return preparers and rely on them to prepare accurate returns. These individuals

are in the business of preparing returns and should do the best job for their clients," said Garriott. "It is an outrageous situation when a return preparer takes advantage of clients. Torres' clients put their trust in him only to find out he had inflated their deductions. Unfortunately, These clients are the ones who will ultimately be responsible for paying any additional taxes with interest."

"This action demonstrates the commitment of the Department of Revenue and the Attorney General's Office to aggressively pursue anyone who prepares fraudulent returns," said Goddard. "The Department of Revenue and the Attorney General's Office are working together to crack

*(Continued on page 4)*

## 2005 ARIZONA LEGISLATIVE SUMMARIES

The 2005 Legislative Summary is a brief summary of the tax-related bills that were enacted by the Arizona Legislature and approved by the Governor. [This month: Miscellaneous Tax Types.](#) This concludes the series.

The general effective date is **August 12, 2005** unless otherwise stated. Copies of these bills can be downloaded at [www.azleg.state.az.us/FinalDisposition.asp](http://www.azleg.state.az.us/FinalDisposition.asp) or may be requested from the Secretary of State's Office by calling (602) 542-4086.

### Senate Bill 1413 (Chapter 259)

Rental Agreements; Heavy Equipment

- Requires a person in the business of renting heavy equipment property in Arizona to include in the rental agreement a one and one-half percent surcharge of the gross rental receipts for any item of heavy equipment that is rented by a customer.
- Stipulates the surcharge be used to pay the personal property tax levied against the heavy equipment.

# \*\*\***REMINDER**\*\*\*

## FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your September 2005 TPT return no later than October 25, 2005 or deliver to DOR no later than October 28, 2005.**

The Tax Facts—Summary of General Fund Revenues & Individual Income Tax Receipts—are available on the department's website, [www.azdor.gov](http://www.azdor.gov)

## E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to:

[TaxpayerAssistance@azdor.gov](mailto:TaxpayerAssistance@azdor.gov)

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

## Department of Revenue Telephone Numbers & Web addresses

### Individual & Corporate Income Tax

..... (602) 255-3381  
Toll-free from  
area codes 520 and 928..... (800) 352-4090

### Transaction Privilege, Use, Withholding Tax, Licensing..... (602) 255-2060

Toll-free from  
area codes 520 and 928..... (800) 843-7196

### Hearing Impaired TDD User .... (602) 542-4021

Toll-free from  
area codes 520 and 928..... (800) 397-0256

**To order forms by phone** ..... (602) 542-4260

**Forms and instructions are also available on our website at** .....[www.azdor.gov](http://www.azdor.gov)

**Businesses can now register, file and pay online at** .....[www.AZTaxes.gov](http://www.AZTaxes.gov)

## TAX CALENDAR

OCTOBER 2005

Due Date	For Period Ending
10	State Holiday—Columbus Day All State Offices Closed
17	Income Tax Returns: 6/30/05
	Form 120: Corporation
	Form 140: Individual
	Form 141: Fiduciary
	Form 165: Partnership
17	Form 120: Corporation with Automatic Extension 12/31/04
17	Form 120S: S Corporation 7/31/05
17	Form 99: Exempt Organization Annual Information Return
	Form 99T: Exempt Organization 5/31/05
17	Form 120ES: Estimated Tax Payment, Corporation
	First Installment 6/30/06
	Second Installment 4/30/06
	Third Installment 1/31/06
	Fourth Installment 10/31/05
20	Form TPT-1: Transaction Privilege Tax: September Monthly Filers 9/30/05
20	Bingo: Financial Reports 9/30/05
20	Luxury Tax: Various Forms 9/30/05
25	EFT Form TPT-1 and Payment: Transaction Privilege Tax: September Monthly Filers 9/30/05
31	Withholding Tax: Form A1-QRT 9/30/05

## Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The *Arizona TaxNews* is a publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request. Subscription information may be obtained from the Publications Unit at 602-716-6797 or toll free from area codes 520 & 928, 1-877-863-0655.

## CHANGE IN TOWN TAX CODE—CITY OF PAGE EFFECTIVE OCTOBER 1, 2005

**Effective October 1st, 2005:** On August 11th, 2005 the Mayor and City Council of the City of Page passed ordinance number 489-05. Ordinance 489-05 increases the **Additional Tax on Transient Lodging from 2% to 3%**. The Additional Tax on Transient Lodging shall be reported using **Code PG001**. The total City rate for transient lodging is **6%, 3%** which is reported using

code **PG000** and **3%** which is reported using code **PG001**.

Ordinance 489-05 also increases the tax rate on **Restaurants and Bars from 3% to 4%**. The increase on Restaurants and Bars shall be reported using code **PG003**.

## CHANGE IN TOWN TAX CODE—TOWN OF QUARTZSITE EFFECTIVE DECEMBER 1, 2005

**Effective December 1, 2005:** On August 23, 2005 the Mayor and Town Council of the Town of Quartzsite passed ordinance number 05-08, 05-09 and 05-10. Ordinance 05-08, 05-09 and 05-10 increase the Quartzsite Town Privilege Tax on Construction Contracting Section 415, 416 and 417 from **2.5% to 3.5%**. The tax on Construction Contracting shall be reported using **QZ015**.

This increase imposed by this ordinance shall not apply to construction contracts entered into prior to the effective date of the ordinance. Pre-existing contracts should be reported using **QZ008** at a rate of **2.5%**.

On August 23, 2005 the Mayor and Town Council of the Town of Quartzsite passed ordinance number 05-11. Ordinance 05-11 increases the Quartzsite Town Privilege Tax on Manufactured Buildings Section 427 from **2.5% to 3.5%**. The tax on Manufactured Buildings shall be reported using **QZ117**.

On August 23, 2005 the Mayor and Town Council of the Town of Quartzsite passed ordinance number 05-12. Ordinance 05-12 increases the Quartzsite Town Privilege Tax on Hotel/Motel from **2.5% to 5.5%**. The tax on Hotel/Motel shall be reported using **QZ025**.

On August 23, 2005 the Mayor and Town Council of the Town of Quartzsite passed ordinance number 05-13. Ordinance 05-13 increases the Quartzsite Town Privilege Tax on Restaurant and Bars from **2.5% to 3.5%** through October 31<sup>st</sup>, 2006. The tax on Restaurant and Bars shall be reported using **QZ011**.

Ordinance 05-13 also increases the Quartzsite Town Privilege Tax on Restaurant and Bars from **3.5% to 4.5%**, effective November 1<sup>st</sup>, 2006 through October 31<sup>st</sup>, 2009. The tax on Restaurant and Bars shall be reported using **QZ011**.

Ordinance 05-13 also increases the Quartzsite Town Privilege Tax on Restaurant and Bars from **4.5% to 5.5%** effective November 1, 2009. The tax on Restaurant and Bars shall be reported using **QZ011**.

### **The following will be the official reporting codes for the Town of Quartzsite:**

Privilege Tax	QZ000	2.5%
Use Tax	QZ002	2.5%
For Single item, Retail Tax on portion over \$10,000	QZ004	1.0%
Metalliferous Mining	QZ005	0.10%
For Single item, Use Tax on portion over \$10,000	QZ006	1.0%
Construction Contracting	QZ015	3.5%
Pre-existing Contracting Contracts	QZ008	2.5%
Manufactured Buildings	QZ117	3.5%
Hotel/Motel	QZ025	5.5%
Restaurant and Bars	QZ011	3.5%

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## NOT AN E-FILE PARTNER YET?

Have you considered e-file, but haven't partnered yet? Arizona e-file has never been easier. We make it easy for you to electronically file your clients' income tax returns without compromising accuracy or safety.

Some of the features include:

- Speed - electronic returns are processed overnight, even when you wait until the deadline to file.
- Convenience – no more gathering forms and calculating complex returns. Enter the data and let the software calculate the return for you.
  - Accuracy – e-file validates the return prior to submission thus making math errors virtually non-existent.
- Safety - tax return data you submit is transmitted through the IRS to the state's private secured network in accordance with rules and procedures implemented to ensure tax information confidentiality.

- Support – The Arizona Department of Revenue, through the Electronic Filing Unit, provides assistance for electronic transmitters and preparers who are experiencing problems.

You can e-file any of the 140 series as well as credit forms, except the 140PTC. Data that is relevant to both federal and state returns only requires one entry thus saving you not only time but also reducing the potential for error. Visit our website at [www.azdor.gov](http://www.azdor.gov) and use the Tax Professionals link. Choose electronic filing and download the AZ E-File Handbook for more information.

Be prepared to answer, "yes", when your clients ask you if you can e-file their tax returns.

## ARIZONA E-FILE: SETTING THE STANDARD FOR INDIVIDUAL INCOME STATE ELECTRONIC FILING

Arizona e-file is expanding and improving every year, enabling tax preparers to better serve their clients. Transmitting for the 2005 tax year begins January 13, 2006. Also beginning in January, DOR will transmit acknowledgements 7 days per week throughout the tax season. What does this mean for you? No more delays in knowing whether or not the Arizona return was received. Download the Tax Year 2005 Arizona

Department of Revenue Electronic Filing Handbook at [www.azdor.gov](http://www.azdor.gov) for more updates and other information.

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*(Continued from page 1)*

down on people who cheat the Arizona tax system."

"It is particularly disturbing that any tax professional would deliberately mislead trusting clients to file fraudulent returns. This practice

violates the premise that each taxpayer should pay the legal amount of tax owed to share the burden equitably," concluded Garriott.

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## NEW RULING—ITR 05-2

**This is an abbreviated version of ITR 05-2.  
The entire ruling can be found on the  
department's website—[www.azdor.gov](http://www.azdor.gov)**

**ISSUE:** When a taxpayer does not claim the dependent exemption for a student on the federal return in order to allow the student to claim a federal education credit on the student's federal return, will Arizona allow that taxpayer to claim the dependent exemption on the Arizona return?

**RULING:** For federal income tax purposes, when a student qualifies as a taxpayer's dependent, and the taxpayer chooses to not claim an exemption for that student to allow the student to claim the education credit, that student still qualifies as the taxpayer's dependent under I.R.C. § 152. In this case, the taxpayer is allowed the exemption under I.R.C. § 151, however, the taxpayer just chooses to not claim that exemption. Additionally, since the taxpayer is entitled to claim the exemption, the student may not claim the exemption.

For Arizona purposes, the student would meet the definition of a dependent under A.R.S. § 43-1001.3 since the student meets the definition of dependent under I.R.C. § 152 and the exemption would be allowable under I.R.C. § 151. Arizona law does not require that the taxpayer actually claim the student as a dependent on the federal return to be eligible to claim the exemption on the Arizona return. Therefore, when a taxpayer does not claim the dependent exemption for a student on the federal return in order to allow that student to claim a federal education credit on the student's federal return, Arizona will allow that taxpayer to claim the dependent exemption on the Arizona return.

Gale Garriott, Director

Signed: September 6, 2005

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## USE TAXES IN ARIZONA

Use taxes have been in existence since the mid-fifties in Arizona, and they were first introduced by Ernest William McFarland, the Governor at that time. The primary purpose for instituting use taxes was to even the playing field for Arizona business concerns, and to protect them from unfair business practices by out of State vendors and businesses. The original tax was 2%, and over the years has been elevated to 5.6%.

A use tax is imposed on any entity that uses stores or consumes any tangible personal property that has been purchased, on which no tax has been paid. For businesses; this has a significant impact. Many Arizona cities also impose a use tax. Most of the larger cities collect their own use tax and are called non-program cities. The majority of the Arizona cities are called program cities and have their use tax collected by the Department of Revenue.

Unlike Use taxes; transaction privilege taxes are imposed upon income or proceeds derived from engaging in a taxable business within the State. Use taxes and Transaction Privilege taxes are commonly called complementary taxes; which means that you are usually liable for one or the other.

Virtually every kind of business is potentially liable

for a use tax. For example, if you pull an item from your inventory and use it for your own business and no tax had been paid on that item, then you are liable for a use tax. If you purchase a computer, office furniture, office supplies, storage equipment, shelving etc., and did not pay a tax when you purchased those items, then you are liable for a use tax. Items purchased over the Internet are liable for a use tax. The Federal Internet Tax Freedom Act prohibits the imposition of any new taxes on sales over the Internet. Keep in mind that Arizona has had a use tax in place since the mid-fifties.

If you currently have a Transaction Privilege tax license, you do not need a separate license for use tax. You can report any use tax due using your Transaction Privilege or Use tax number. There is no charge for a Use tax license. More information about Use taxes can be obtained by logging in on our website [www.azdor.gov](http://www.azdor.gov), or by contacting the Use tax section in the Arizona Department of Revenue.

## IRS INCREASES MILEAGE RATE UNTIL DECEMBER 31, 2005

IR-2005-99, Sept. 9, 2005

WASHINGTON – The Internal Revenue Service and Treasury Department announced today an increase to the optional standard mileage rates for the final four months of 2005.

The rate will increase to 48.5 cents a mile for all business miles driven between Sept. 1 and Dec. 31, 2005. This is an increase of 8 cents from the 40.5 cent rate in effect for the first eight months of 2005, as set forth in Rev. Proc. 2004-64.

“This is about fairness for taxpayers,” said IRS Commissioner Mark W. Everson. “People are entitled to deduct the real cost of operating a vehicle. We’ve responded to the recent gas price increases by making this special adjustment so taxpayers get the tax benefit they deserve.”

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2005. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

“With many predicting a decline in gas prices over

coming months, we will hold off on setting the 2006 rate until closer to January,” Everson said. Next year’s rate could be lower than 48.5 cents.

While gasoline is a major factor in the mileage figure, other items enter into the calculation of mileage rates, such as the price of new vehicles and insurance.

The optional business standard mileage rate is used to compute the deductible costs of operating an automobile for business use in lieu of the extra burden of tracking actual costs. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for mileage.

The new four-month rate for computing deductible medical or moving expenses will be 22 cents a mile, up from 15 cents for the first eight months of 2005. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

The annual Revenue Procedure includes limitations on who is not eligible to use the standard mileage rate.

## NOTICE OF ADMINISTRATIVE RELIEF GRANTED FOR HURRICANE KATRINA AND RITA VICTIMS

The Arizona Department of Revenue (DOR) announced administrative relief for filing and payment obligations due to the devastating effects of Hurricane Katrina. The Internal Revenue Service issued Notices 2005-84, -91, -96, -103, -109, and -112 describing disaster relief for taxpayers in the Hurricane Katrina disaster areas and 2005-110 describing disaster relief for taxpayers in the Hurricane Rita disaster areas.

Internal Revenue Service Notices 2005-84, -91, and -109 describe affected taxpayers for purposes of administrative tax relief as those taxpayers in the specified 64 Louisiana parishes, 52 Mississippi counties, six Alabama counties, and 11 Florida counties. Notice 2005-110 adds nine Texas counties affected by Hurricane Rita.

Any taxpayer who qualifies as an affected taxpayer as set forth in Notices 2005-84, -91, 109, and -110 is entitled to the following administrative relief for the Arizona tax filing and payment obligations:

1. For all affected taxpayers having an obligation to file a return or make a payment under Titles 42 or Title 43 of the Arizona Revised Statutes during the

period from August 29, 2005 through October 31, 2005, DOR will waive or abate penalties if the filing or payment is made on or before February 28, 2006. *However, unlike federal law, Arizona law does not provide for the abatement of interest. Therefore, applicable interest will be assessed.*

This relief covers income taxes, transaction privilege (sales) and use taxes, estate taxes, luxury taxes, withholding taxes and estimated payments.

2. For all affected employers having an obligation to make a deposit of withholding taxes during the period from August 29, 2005 through September 23, 2005, DOR will waive or abate penalties, but not interest, if the deposit is made by February 28, 2006.

To apply for the relief set forth above, taxpayers should write, in red, “Hurricane Katrina” or “Hurricane Rita” on the top of the first page of returns and correspondence.

In addition to taxpayers who reside in the disaster areas, DOR will work with any taxpayer who resides elsewhere but whose books, records, or tax practitioner is located in the relief areas.

# **IRS WARNS CONSUMERS OF POSSIBLE SCAMS RELATING TO HURRICANE KATRINA RELIEF**

IR-2005-115, Oct. 3, 2005 –

WASHINGTON – The Internal Revenue Service today issued a consumer alert about possible scams taking place in the wake of Hurricane Katrina and other recent natural disasters.

Such fraudulent schemes may be perpetrated through the telephone, Internet, e-mail or in-person solicitations. The IRS cautions hurricane victims and people wishing to make disaster-related charitable donations to avoid unscrupulous scam artists by following these tips:

- The IRS has established a toll-free disaster assistance telephone number, 1-866-562-5227, specifically for hurricane victims. Whenever a matter involves tax relief or tax refunds, the first step a disaster victim should take is to call the IRS.
- For others, donate to recognized charities.
- Be wary of charities with names that sound like familiar or nationally known organizations. Some phony charities use names or Web sites that sound or look like those of respected, legitimate organizations. The IRS Web site at [IRS.gov](http://IRS.gov) has a search feature that allows people to find legitimate, qualified charities to which donations may be tax-deductible. Legitimate charities may also be found on the Federal Emergency Management Agency (FEMA) Web site at [fema.gov](http://fema.gov).
- Don't give out personal financial information — such as Social Security numbers or credit card and bank account numbers and passwords — to anyone who solicits a contribution from you. Scam artists use this information to steal your identity and financial resources.
- Don't give or send cash. For security and tax record purposes, contribute by check or credit card. Write the official name of the charity on your check.

“We encourage people to be prudent when they are solicited for disaster donations,” said IRS Commissioner Mark W. Everson. “Don't be taken in by scam artists more interested in lining their pockets than helping others.”

Scam artists can use a variety of tactics. For example, some scammers operating bogus charities may contact members of the public by telephone to solicit money or financial information. In some cases, they may contact disaster victims and, claiming to be working for or on behalf of the IRS to help the victims file amended tax

returns to receive tax refunds, attempt to get personal financial information or Social Security numbers that can be used to steal the victims' identities or financial resources.

The IRS does not ask for personal identifying or financial information in unsolicited telephone calls or mail or via e-mail. Call the IRS toll-free number if you have any doubts as to whether someone is an IRS employee or to verify any information about taxes.

Additionally, bogus Web sites are currently soliciting funds for disaster victims, according to federal law-enforcement agencies. Such fraudulent sites frequently mimic the sites of, or use names similar to, legitimate charities, or claim to be affiliated with legitimate charities, in order to persuade members of the public to send money or provide personal financial information that can be used to steal identities or financial resources.

Members of the public may also have received e-mails that steer the recipient to bogus Web sites that sound as though they are affiliated with legitimate charitable causes.

Taxpayers suspecting disaster-related frauds can:

- Report the fraudulent use of the IRS name to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484.
- Report fraudulent charity Web sites to [ic3.gov](http://ic3.gov) on the Web.
- Report other fraudulent contacts either to the Federal Bureau of Investigation (FBI) at 1-800-CALL-FBI (1-800-225-5324) or to the Federal Trade Commission's (FTC) Consumer Response Center at 1-877-FTC-HELP (1-877-382-4357) (TTY/TDD 202-326-2502).

The IRS has seen numerous attempts over the years to defraud the public and the federal government through a variety of schemes, including abusive tax avoidance transactions, identity theft, claims for slavery reparations, frivolous arguments and more. More information on these schemes may be found on the criminal enforcement page at [IRS.gov](http://IRS.gov).





## 2005 EMPLOYER'S TAX MIX

The Community OutReach and Education section of the department invited employers and tax professionals to attend the 2005 Employer's Tax Mix. This is a rare opportunity to get comprehensive information from representatives of the following federal and state agencies:

- Arizona Department of Revenue
- Arizona Department of Economic Security, Unemployment Insurance
- Arizona Department of Economic Security, Child Support
- SCF of Arizona

- Internal Revenue Service
- US Department of Labor, Wage and Hour Division

Cost of the program is \$75 per person. Schedule in Tucson, Phoenix and Mesa:

**Tucson—October 24**, Radisson Suites,  
6555 E Speedway

**Phoenix—October 25**, Ramada Inn,  
12027 N 28th Dr.

**Mesa—October 26**, Holiday Inn,  
1600 S Country Club.

For more information, please call 602-716-6797, or  
toll free from area codes 520 & 928, 1-877-863-0655.